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OFFICE OF REPORTS AND ESTIMATES, CIA FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS - WEEK OF 13 APRIL - 19 APRIL 1948

# GENERAL

Chinese attitude toward the new Siamese Government

The Chinese Government is seriously concerned over the recent change in the composition of the Siamese Government but takes the position that since the Phibul Government came to power by ostensibly constitutional procedures the question of recognition does not arise. The principal preoccupations of the Chinese Foreign Office regarding the Siamese problem are: (1) the desperate need of China for Siamese rice, (2) the large number of Chinese residents in Siam, and (3) the increase in Communist activities in Siam. Though disliking and distrusting Phibul for his strongarmed methods as well as his anti-Chinese record, the Chinese Government is impressed by his strength and his ability to get things done, and has decided the best policy is to make the best of the Phibul Government. The Chinese Government, however, is anxious to get US, UK, and French cooperation in order to impress on Phibul that his interests lie in international cooperation and in fully discharging treaty obligations.

Japan-WEI trade agreement negotiated

The US Political Adviser in Tokyo has been advised by Lt. General Wybrandus Schilling, Head of the Netherlands Military Mission in Japan, that an agreement has been negotiated whereby Japan is to sell \$50,000,000 worth of products to the NEI and is to purchase \$30,000,000 worth from the NEI. It is estimated that the real value of Japan's exports under this agreement are somewhat less, and Japan's imports somewhat greater, than that country's annual trade with the NEI in the middle 1930's (after currency value adjustments). However, it is not yet clear whether the new agreement covers only a single year.

General Schilling also told the Political Adviser that without adequate transport for Dutch troops, disorder could possibly spread in Java, thus affecting adversely the exchange of goods between Japan and the NEI. He stated that, because of the almost total lack of transport available to the Dutch military authorities in the NEI, he had asked both Under-Secretary of the Army Draper and General MacArthur for 5,000 motor trucks; but that although sympathetic they had indicated that the trucks could only be declared surplus by arrangements between the US Departments of State and the Army.

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#### JAPAN

Twenty-two Cabinet Vice Ministers appointed. After approval by the President of the Upper House and the Speaker of the Lower House of the Diet, the Cabinet's selection of twenty-two Vice Ministers was formally announced on 15 April. The Social Democratic Purty has received eleven of the Vice Ministries while the Democrats, the Ryokufu-kai and the People's Cooperatives were respectively awarded seven, three and one Vice Ministries. The number of Cabinet Vice Ministries has been virtually doubled in what appears to be an effort to provide the faithful with political "plums". It is felt that the appointments indicate: (a) a political measure aimed at a general election whereby Diet members can gain "face" by producing a record of Cabinet service as a claim for reelection; (b) an attempt to win increased support from the Ryckufu-kai (Green Breeze Society), a large group of independents in the Upper House which includes both pro-government and pro-opposition factions, by the appointment of three members to Vice-Hinistries; (c) recognition of what the Japanese, at least, consider the weaker sex by the appointment of one female Social Democrat as Vice Minister of Welfare.

Anti-Communists set-backs. Recent set-backs suffered by anti-Communist Porces in two important farm and industrial workers organizations illustrated the strength of the Communist position in Japanese labor. The anti-Communist novement in Japanese labor has been advancing steadily since mid-1946. To some extent this growth has been cued by successive anti-Communist statements of US officials and reflects the results of occupation, efforts in labor education. More immediately the anti-Communist stand of the left-wing Socialists and the relatively open support of the last two Japanese Cabinets, the labor portfolios of which have been held by Socialists, have considerably advanced the spread of Democratization Leagues, the form which the anti-Communist movement has taken in labor. Defeat of Cormunist candidates in recently held elections in the Government Railway Workers Union has been the height of success to date. Carrying of the anti-Communist movement Democratization tactics to the Japan Farmers Union and the All Japan Electrical Workers Union, where the Communists are strongly entrenched, have produced the current difficulties.

Announcement in March of the organization of a Democratization League within the Japan Farmers Union evoked violent opposition from militant leftists in the JFU. The leftistscharged that the League was a violation of the principle of political neutrality to which the JFU has adhered since its inauguration in early 1946 and an attempt to disrupt working class unity. the Central Executive Committee meeting held this past week in place of the regular national convention of the union which was postponed due to the violence of the disagreements, Communists or Communist sympathizers have demanded the dissolution of the Democratization League and the calling of the Central Conference of the policy-making Central Committee on which these leftwingers have a controlling voice. Right-wingers have proposed limitation of discussion to "daily life struggle" as a method to avoid an open split in the union. These right-wingers are opposed to the raising of the Communism issue in the Central Committee now when they might be defeated and seek time to permit their movement to gain strength. Anti-Communist Socialist left-wingers, INAMURA Junzo, SATAKE Shinichi and TAMAKA Orinoshin are the leaders of this right wing movement within the JFU. One of their major notives in this sortie

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# JAPAN (Cont.)

is an attempt to obtain the realignment of former JFU members who left the JFU with HIRAMO Rikizo and who, although, they joined his National Farmers Union, (NFU) did not forsake the Socialist Party when Hirano organized the Social Renovation Party.

JFU Chairman Kuroda, one of the few important left-wing Socialists who still cling to the idea of a united front with the Communists, has pleaded for union unity but as yet taken no stand opposing the Communists. Kuroda recently vehemently announced that there had been no change in the JFU position that members were entirely free to belong to the political party of their choice. While the attempt of the left-wing socialist to bring the MFU back into the JFU depends in large measure upon their ability to eliminate Communist influence, the strength of the Communists position in the Central Committee and the probable attitude of delegates who stand with Kuroda in denouncing any move to precipitate an open split in the union as a "betrayal of the peasants", make it imperative to avoid for the present the showdown for which the Communists are pressing.

In the industrial workers field, the failure of a leader in the MCIU Democratization League, OCHIAI Eiichi, to win re-election to the chairmanship of the All Japan Electrical Workers Union, has damaged the anti-Communist movement in the MCIU. The AJENU national was considered the stronghold of the forces within the NCIU seeking to reduce Communist dominance. Election of NAKAHARA Junkichi, a Communist, to replace OCHIAI renders more difficult the task of undermining the Communist, hold on NCIU.

#### KOREA

over 8,000,000 of the approximately 8,700,000 eligible voters in South Korea are known to have registered for the UN-sponsored election to be held 10 May. This tremendous registration, 9% of the electorate, may be due in part to spontaneous public interest in participating in an election, a privilege Koreans have never before enjoyed. It also undoubtedly reflects a considerable degree of pressure on the public by the rightist police and strong-arm youth groups. Both the police and the youth groups are elements in the Rhee machine and are reported to have been offering "instruction" in democratic procedures to the public in the provinces. The extreme Right has every reason to feel confident of its success in the coming election. Soviet propaganda has already begun attacking the validity of the election on the grounds of coercion and intimidation.

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CHINA

Military

The Nationalist headquarters in Manchuria expects that the next Communist offensive against Makden will be launched in the Hainmin sector in about two weeks, but adverse weather conditions have limited the mobility on both sides. However, the press last week reported skirmishes between Makden and Chinchou and noted the appearance of Lin Piao's 2nd column (one of his best) near Faku, northwest of Makden. The first division of the Nationalist's 8th Army, which recently evacuated several ports on the north coast of the Shantung Peninsula, has arrived at Chinchou. In Shantung, the Communists were still laying siege to Weihsien and according to some sources, were making more extensive use of artillery than heretofore reported in the Shantung fighting.

The Communists were active in a wide area around Peiping. They continued their destructive raids on the Feiping - Suiyuan railroad, re-occupied several stations along the line, while maintaining a loose siege around Tatung, which is now being supplied by air. To the east of Peiping, Communist thrusts were repulsed in the Paoti-Sanho area, but a new threat to the Chengteh - Pingchuan region of Jehol has developed as Communist units have attacked the latter point.

The area around Chengchou continued to be the focal point of the military scene in Central China. Communist troops from the Fouyang - Taiho sector have moved northwest, occupying the Peiping - Hankow railroad from Hsinyang north of Chengchou. The Nationalists are mintaining pressure on these forces from the south and southeast. Minor activity was noted on the Hupeh - Shensi border where Paiho and Chunhsien were reportedly captured by the Communists.

Political

Chiang Kai-shek was elected the first constitutional president of China on 19 April by a vote of 2430 - 269 in the National Assembly. The only other candidate was Chu Cheng, president of the Judicial Yuan. Last week the National Assembly passed a compromise measure granting the president during the national crisis emergency powers which will undoubtedly make the position more attractive to the Generalissimo. The compromise also provided that the National Assembly should be convoked again before 25 December 1950 to discuss proposed constitutional amendments. The constitution provides that the Assembly meet every six years.

The National Assembly became a sounding board of public opinion last week while it listened to reports on military, economic, and foreign policy issues. The military report created the greatest uproar with delegates insisting that their own areas receive greater protection against the Communist offensive.

Student trouble continues in practically all the colleges in Peiping and Tientsin. At the same time a delegation of students from the Nanking - Shanghai area clashed with police when they attempted to enter the National Assembly. They were finally allowed to enter and a committee was appointed to hear their petition. Further student disturbances are feared during May, the anniversary of last year's student disorder. Shanghai authorities anticipate trouble

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instigated by the Communists in that city in conjunction with any attempts to cross the Yangtze.

In his review of Chinese foreign policy before the Mational Assembly on 14 April, Foreign Minister Wang Shih-chieh stated that much of the critical US opinion of China was justified, but in part was due to Communist propaganda. He stated that the recent US decision to continue aid to China demonstrates the fundamental soundness of Sino - US friendship. US funds from the aid bill would be used to (1) balance international payments, and (2) obviate the need for further inflation projects. Simultaneously the Government would put into execution Premier Chang Chun's 10-point self-help program.

Foreign Minister Wang clearly implied that Sino-Soviet relations were unsatisfactory. He pointed out that, under the Sino-Soviet Treaty of 1945, the USSR assumed important obligations and that if Sino-Soviet relations were not all they should be the fault was not with the treaty but in its fulfillment. He added that China would insist on strict observance of the Treaty. (However US Embassy Manking has learned from the Vice Foreign Minister that China's basic policy toward the USSR at this time is to do nothing to aggravate Sino-Soviet relations, and that recognizing US prior concern with Europe, China would not consider pursuing a more aggressive policy toward the USSR until such time as it could rely upon effective US support.

National Assembly delegates from Mongolia, Sinkiang and Taiwan (Formosa) have attacked the Government's minority policy, especially the fact that these regions were not even mentioned in the reports of the Ministers for Education and Social Affairs. They demanded that the Government abolish the important Tibetan - Mongol Affairs Commission and establish a Border Affairs Ministry. They also asked the Government to keep its earlier promise of Mongol and Taiwan self government.

## Economic

Currency/Prices. The Shanghai exchange and commodity market showed a downward tendency during the greater part of the past week with the US \$ black-market rate falling after reaching CN 700,000 to 1, and rice dropped from a peak of CN \$24 million a picul. However Reuters reports that the US \$ has started on another upswing on the blackmarket going as high as CN \$740,000 to-day, 19 April. This latest rise is reportedly due to rumors of another boost in the official "open" rate. The almost daily, and oftentimes hourly, fluctuations reflect the sensitivity of the money and commodity market conditions.

The Shanghai Market:	US & Lochange (Selling Rate)		Wholesale Price of Rice
	Official "open"	Blackmarket	per 172 lb picul
This week (16 Apr 48) Week ago (9 Apr 48) Nonth ago (16 Mar 48) Year ago (16 Apr 47)		640,000 650,000 465,000 13,500	CN \$3,500,000 3,800,000 3,600,000 165,000

Private Holdings in US. Ku Cheng Tung, Manchurian delegate, has reportedly

proposed to the National Assembly that a delegation be sent to Washington to negotiate for disclosure of private Chinese wealth in the US.

Hainan Iron. An unconfirmed report from Tokyo states that three Japanese technicians have left Japan for a 45-day survey of iron mines on Hainan Island, at the request of the Chinese Resources Commission and the British Ott Co.

Taiwan Power. The Taiwan Power Co. will receive a US \$2 million loan from Westinghouse to purchase equipment.

Foreign Trade. The Chinese Customs report January imports totaled US \$19.4 million and exports US \$16.2 million, leaving a deficit of US \$3.2 million compared with a favorable balance of US \$4.3 million in December 1947 as based on the average official "open" exchange rate.

#### FRENCH INDOCHINA

French attempts to break deadlock in negotiations. The French in an effort to break the deadlocked negotiations between former Amamite emperor Pao Dai and High Cormissioner Pollaert, have increased their pressure on Pao Dai by sending Louis Caput, a socialist known to have been sympathetic toward No Chi Minh, to Mong Mong, allegedly to contact Viet Minh political observers. The French ammarently hoped to give the impression that they might by-pass the ex-emmeror and treat with No Chi Minh or an alternate, thus encouraging Tao Dai to favorable action. The French at the same time apparently are attempting to reach an agreement by more persuasive means, as they are reportedly considering the sending to Indochina, of Georges-Picot, an old friend of the former emmeror. It is unlikely, however, that the stalemate can be broken by either of these methods unless the French are willing to meet the majority of Pao Dai's demands.

#### **Limbolitaty**

Incident complicates negotiations. Recriminations concerning the alleged mistreatment of the Dutch Delegation upon the arrival of the Good Offices Committee (CC) at Jegjakarta, the Republican capital, on 12 April may have dissipated much of the good will which has been built up between the Dutch and Republican Delegations during the past six months. Although the Republican Government has apologized for the incident, Lt. Governor General Van Mook and the non-Republican Indonesians on the Dutch Delegation, against whom mob action was directed, tended to regard the incident as serious enough to consider the return of the Dutch Delegation to Ratavia. Vredenburch, the most influential Dutch official in Indonesia at present, takes a more objective view of the demonstration and believes negotiations should be resumed. The US Delegation reports that should Vredenburch feil, negotiations may be permanently ended since the CC will not support the Netherlands nor will it exert influence to bring the Republican Delegation back to Batavia.

Even though the situation is smoothed over sufficiently to permit continuation of negotiations, the incident may weaken the Republic's position. It will serve to give weight to the Dutch contention that Republican officials are incapable of maintaining order in areas under their control. Furthermore, the recent demonstration by Republicans aimed at non-Republican Indonesians with whom the Republic is expected to cooperate in a federal United States of Indonesia (USI) may complicate future discussions. In this tense atmosphere, negotiations, if resumed, will be difficult and protracted.

#### STAM

Phibul Government makes bid for foreign approval. Phibul Songgram in assuming control of the Siamese Government must undertake the solution of the same national problems and issues which were used as the excuse to oust the preceding Thamrong and Aphaiwong Cabinets (the high cost of living, the report on the former King's death, and relations with the Chinese). A large measure of Phibul's ability to remain in power will depend upon his success in treating with these problems. If he is unable to cope with these problems, it is

# STAM (continued)

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possible that dissatisfied and easily disaffected elements among	his Arm	ay .
and civilian followers may shift their summent to the amosition		1
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Phibul has publicly promised that his government will act in accordance with the constitution, be strictly democratic in principle and practice, and depend on the vote and voice of the people for existence and guidance. This statement has committed Phibul to a dependence upon Parliamentary approval, but in the light of his past record of strong-arm methods it is doubtful that he will live up to such confining promises. It is estimated that the Premier's statement is little more than a bid for foreign approval of his new government and that once diplomatic relations are resumed he will revert to policies more consistent with his record.

#### BANTOLITHI

Laurel continues presidential campaign. Two days after the death of President Roxas, Jose P. Laurel, occupation president of the Philippines, continued his 1949 presidential campaign with fervidly nationalistic speech in La Union province. In his first public statement since Roxas' death he unmistakably indicated that he would not abide by the offer he made a month ago to withdraw from the campaign if Roxas did not run.

Completely disregarding the plea of new President Quirino for "tolerance and national unity," Laurel charged that approvernment "incapable of maintaining peace and order is not government at all." Alluding to the parity amendment he stated that the Filipino people are tired of the present administration's desire "to change the nation's patrimony. Our lands, seas, forests, mines, lakes are for Filipinos — not foreigners."

#### AUSTRALIA

Australian political leaders show united in views on foreign affairs. Considerable agreement between the Government and the Opposition was apparent in the April 9 Australian Farliamentary debate on foreign affairs. Both Foreign Linister Evatt and Opposition leader Menzies deplored the tension between the

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# AUSTRALIA (continued)

WS and WSSR; defended the workability of the UN, after the peace treaties are signed; and called for an early settlement of the Japanese question. They reiterated the Australian belief that Japan's industrial revival should be on a moderate scale, and that her standard of living be no higher than that of the countries she devastated. Foth paid tribute to the constructive US policy reflected in the European Recovery Program and referred to the aggressive tactics of the USSR as aimed at European domination.

# MYT ZEALAND

Opposition calls for restrictive legislation against Communists. Increased public agitation over the Communist problem as a result of the Czech coup, the transport strike in Queensland, Australia, the UK decision to remove Communists from sensitive posts, and the domestic strikes of carpenters, watersiders, and hydro electric workers, in which Communists are alleged to have played important parts has been seized upon by the Opposition. Mr. S. G. Holland, Federal leader of the Opposition, has urged that Parliament pass legislation providing that persons guilty of subversive activities, or owing allegiance to a foreign power, be ineligible for employment in the New Zealand Public Service or in the management of its industrial system.

The Prime Minister has answered this by denying the need for special legislation, stating that existing laws were adequate to cope with illegal activities. (Actually no law exists under which civil servants or union officials can be removed from office on grounds of Communist affiliation or political activity).

The Labor Government is unwilling to depart from the New Zealand tradition of not penalizing workers for political beliefs, nor to risk the antagonism of non-Communist unionists who see basic civil liberties destroyed. It may, however, be expected to prosecute Communists for overt violations of the law, such as inciting to illegal strikes, and to encourage public recognition of the ultimate aims of the Communist Party in the belief that this will be effective in eliminating them from positions of control.

The Opposition will probably introduce anti-Communist legislation in the next session of Parliament (June 48) but is unlikely to secure its enactment. The Government's position is strengthened by the recent defeat of the Australian Opposition's motion of censure on the same subject, although it must be remembered that unlike Australia, the New Zealand Labor Government's majority is a very narrow one.